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An Analysis of the Unemployment Insurance System

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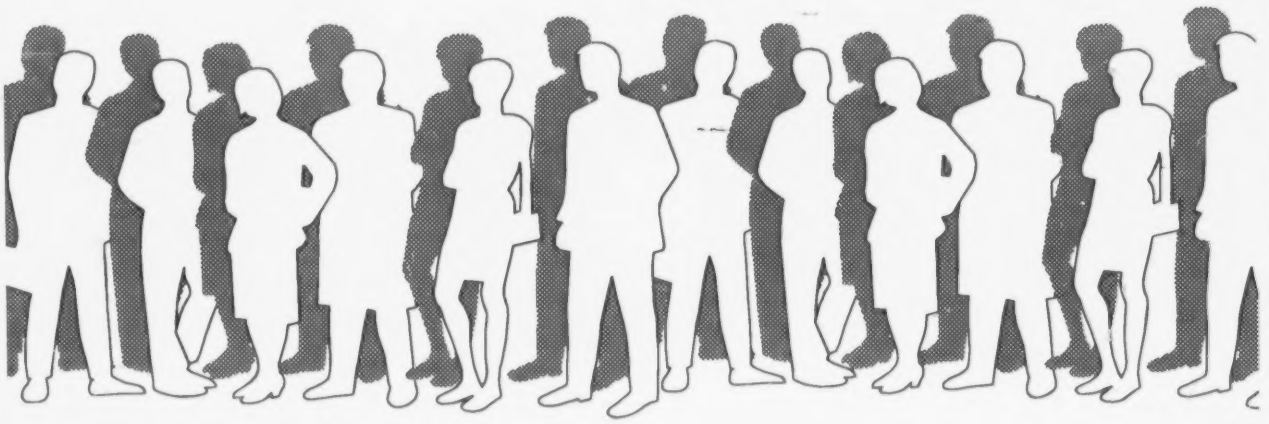

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Summary

In 1991, only about two in every five unemployed workers — 42 percent — received unemployment insurance benefits in an average month. From July 1990 when the recession began until November 1991, the unemployment insurance system provided a lower level of protection than in any other recession since the end of World War II.

In response, a temporary emergency unemployment compensation program was enacted in November — 17 months into the recession. The program was strengthened further in February 1992; it is scheduled to expire in July 1992.

The EUC program, while helpful, falls well short of returning unemployment insurance protection to adequate levels. It provides a temporary fix to only one of the problems of the unemployment insurance system — the lack of additional aid for those who exhaust their regular benefits during periods of high unemployment. Other problems with the system, such as a sharp decline in the percentage of the unemployed receiving *any* basic benefits, are not addressed. Comprehensive, permanent reform of the unemployment insurance system is warranted.

Record Low Levels of Protection Continue

The share of the unemployed receiving benefits in recent years compares unfavorably to the levels of protection provided in previous decades.

- From 1984 to 1989, the share of the unemployed receiving benefits averaged 33 percent. In five of these six years, the share of the unemployed receiving benefits fell to the lowest level ever recorded.

- The proportion of the unemployed receiving benefits typically rises during recessions, and 1990 and 1991 were no exceptions.* But the increases were modest, with just 37 percent of the unemployed receiving benefits in 1990 and 42 percent receiving benefits in the more severe recession year of 1991. (The increase from 1990 to 1991 largely reflects the weaker labor market prevailing in 1991.)

- The percentage of the unemployed receiving benefits in 1990 was lower than in any other recession year since the end of World War II. The percentage of the unemployed receiving benefits in 1991 was nearly identical to the previous low for a recession year.

- By contrast, in the recession year of 1980, some 50 percent of the unemployed received aid. In the more severe recession year of 1975, an all-time high of 76 percent of the unemployed received aid.

- If the share of the unemployed receiving benefits had been the same in 1991 as in 1980, nearly 750,000 more jobless workers would have received aid in an average month last year.

Record Numbers Exhaust State Benefits Without Qualifying for More Aid

The permanent unemployment insurance system includes two basic parts. The first part consists of regular, state-funded benefits that are provided for up to 26 weeks in virtually all states. Gary Burtless of the Brookings Institution has found that state unemployment insurance protection is now about one-fifth lower than in the 1967-1979 period.

The second part of the permanent unemployment insurance system consists of the federal-state "extended benefits" program. When the level of unemployment insurance receipt in a state rises above a specified threshold, up to 13 additional weeks of "extended" benefits are provided to most of the unemployed workers in the state who have used up their regular benefits and are still looking for a job. The concept behind the extended benefits program is that when unemployment is high, it usually takes longer to find a new job.

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* The proportion of the unemployed consisting of people who have been laid off or fired rises during a recession. Since it is these job losers that the unemployment insurance system is primarily designed to assist — as distinguished from unemployed people who leave their jobs voluntarily or are new entrants or reentrants into the labor market — the proportion of the unemployed receiving benefits normally rises in a recession.

The number of jobless workers who exhausted their state unemployment insurance benefits jumped by nearly half in 1991; some 3.5 million state UI recipients exhausted their benefits. Only a small fraction of these workers, however, were eligible to receive extended benefits. Large cutbacks in the extended benefits program in the early 1980s greatly restricted its scope.

- Eligibility for the extended benefits program during the current recession peaked in April and May 1991. Even then, just eight states qualified for the extended benefits program.

- Massachusetts and Michigan lost their eligibility for extended benefits in June, even though their unemployment rates exceeded nine percent. West Virginia became ineligible for extended benefits in July despite an unemployment rate of more than ten percent.

- In July, some 350,000 unemployed people had their state benefits expire. Only 18,000 of these workers lived in states where they could qualify for extended benefits. That left 332,000 workers without additional aid, the largest number of state exhaustees not qualifying for additional aid in any month on record.

- By mid-October, no state qualified to pay extended benefits even though more than 300,000 unemployed workers exhausted their state benefits that month, the national unemployment rate equaled 6.9 percent, and six states had unemployment rates above eight percent.

Recent Temporary Legislation Helps but is Insufficient

During most post-World War II recessions, the federal government has enacted a temporary program of supplemental unemployment benefits for workers who have exhausted their regular or extended benefits and are still looking for a job. In November 1991, some 17 months after the recession began, Congress and the President agreed to provide supplemental benefits.

The emergency unemployment compensation legislation provides benefits both to workers who exhausted their state benefits during or after November 1991 and to many workers who exhausted their state or extended benefits prior to November and were still unemployed. The EUC program was strengthened in February 1992. A maximum of at least 26 weeks of supplemental benefits is now provided in all states. The program expires on July 4, 1992.

The EUC program took a long time to be enacted and only partially and temporarily addresses weaknesses in the unemployment insurance system. Nevertheless, it is providing substantial assistance to the unemployed.

- From the beginning of the recession in July 1990 to November 1991, only 40 percent of the unemployed received unemployment insurance benefits in the average month.

- In December 1991, with the EUC program up and running, the percentage of the unemployed receiving unemployment benefits rose to more than 50 percent.

State-by-State Variations

The proportion of jobless workers receiving benefits in an average month varied greatly in 1991, ranging from 21 percent in South Dakota to 70 percent in Alaska. This disparity reflects differences in state economies, the demographics of state workforces, and to a significant extent, differences in state unemployment insurance programs.

Some state programs are highly restrictive, and unemployment protection in these states is quite low. In 14 states, fewer than one-third of the unemployed received benefits in an average month in 1991. In three states — Oklahoma, South Dakota, and Virginia — the proportion of the unemployed receiving benefits fell below one-fourth.

Two of the nation's most populous states had very low levels of protection in 1991. Texas had the fourth lowest level of protection of any state, with 26 percent of its unemployed receiving benefits. In Florida, with the sixth lowest level of protection, 28 percent of unemployed workers received benefits.

Among the states with low levels of unemployment protection were several with very weak economies. West Virginia had the nation's highest unemployment rate last year — 10.5 percent — but only 31 percent of its jobless workers received benefits in an average month. In Mississippi, the unemployment rate was 8.6 percent, fourth highest in the nation. Just 30 percent of the unemployed received benefits in that state.

Michigan also stands out. While the state had a 9.2 percent unemployment rate, the nation's second highest, its rate of unemployment insurance protection was, at 41 percent, slightly below-average. As a result, nearly a quarter million jobless workers went without benefits in an average month, a fact made more striking by

actions Michigan took in 1991 to make what are probably the deepest state cuts in programs for the poor in recent history. These cuts included the virtual elimination of general cash assistance for indigent people who do not have children and are not elderly or substantially disabled. As a consequence, thousands of jobless individuals in Michigan now cannot obtain cash assistance from any level of government.

Illinois and Ohio also warrant mention. In Illinois, 38 percent of the unemployed received benefits in an average month, leaving 268,000 without benefits. Illinois did not terminate its general cash assistance program but cut it sharply. In Ohio, some 205,000 jobless workers went without benefits in an average month, as 41 percent of the jobless received benefits. Ohio sliced its general cash assistance program about in half, reducing benefits to $100 a month, and limiting eligibility to six months in a 12-month period. These were the largest general assistance reductions made in any state except Michigan.

In many states, unemployment protection fell sharply in the 1980s. One way to measure this decline is to compare the portion of unemployed workers receiving benefits in a state in 1991 to the portion receiving benefits in 1980. Both were recession years with similar unemployment rates.

In 34 states, the proportion of jobless workers receiving benefits was lower in 1991 than in 1980. In some states, the decline in unemployment insurance protection was severe. There were six states — Illinois, Kentucky, Michigan, Montana, Ohio, and West Virginia — where the proportion of the unemployed receiving benefits declined 15 percentage points or more between 1980 and 1991. For example, in Michigan, the decline was 27 percentage points; 68 percent of the unemployed received benefits in 1980 but 41 percent did in 1991. In 12 other states, the unemployment protection rate fell between 10 and 15 percentage points.

Ongoing Need for Unemployment Insurance Reforms

In February 1992, the unemployment rate rose to 7.3 percent, the highest monthly rate in nearly seven years. There were 9.2 million unemployed people that month, 2.7 million more than when the recession began.

There are some indications the economy is beginning to grow again, but the recovery is expected to be weak. Nearly all current economic projections forecast that it will take a number of years before unemployment returns to pre-recession levels. The Bush Administration's latest economic forecast projects the unemployment rate will be *higher* in 1992 than in 1991 and will remain at high levels for an extended period of time. Under the Administration's forecast, the unemployment rate will not return to its pre-recession level — 5.3 percent — until

1996. The Congressional Budget Office projects this will not happen until 1998 at the earliest.

Whatever the exact course of the recovery, however, the weaknesses of the unemployment insurance system will continue to cause problems. The system is inadequate in good economic times as well as in bad.

A strong national labor market does not eliminate weaknesses in all state and local labor markets; the unemployment rate is likely to remain high in some states long after the national rate declines. Unemployed workers in those states will still face long job searches. They will be unlikely, however, to receive adequate unemployment insurance protection.

- In 1989, the national unemployment rate of 5.3 percent was the lowest in 15 years, but six states had unemployment rates that averaged seven percent or more. None of these states qualified for the extended benefits program.

- In 1988, when the national unemployment rate averaged 5.5 percent, 10 states had average unemployment rates above seven percent. Four states had rates greater than *eight* percent. Only one of these states qualified for the extended benefits program.

Moreover, during both good times and bad, the proportion of the unemployed who receive *regular* unemployment insurance benefits is very low in some states. In 1989, there were 16 states in which fewer than one in every four unemployed workers received benefits. Even when labor markets are tighter and job searches are shorter, *some* unemployment insurance protection is needed to help workers until they find a job.

For those who do not receive help from the unemployment insurance system, the rest of the safety net is frequently inadequate. Those parts of the safety net that are designed to provide cash assistance to the non-elderly poor are themselves considerably weaker than in the past. A number of states instituted major reductions in cash aid programs for the poor in 1991, and additional cuts are likely in 1992. Furthermore, most such programs are not specifically designed to help the unemployed.

Unemployment Insurance Reforms

To repair the unemployment insurance system's cracked foundation, comprehensive reform is needed. Reforms can be fashioned both to strengthen the

provision of assistance to the long-term unemployed and to raise the proportion of the unemployed receiving regular unemployment benefits.

Strengthening Assistance to the Long-term Unemployed

The first step toward strengthening unemployment insurance assistance to the long-term unemployed is extension of the emergency unemployment compensation program beyond its mid-1992 expiration date. Until mid-1992, workers who exhaust their state benefits are eligible for a maximum of either 26 or 33 weeks of additional benefits, depending on their state. If the program expires, most workers who exhaust their state benefits after mid-year will not be eligible for any further benefits. The only exceptions will be workers in those few states that manage to qualify for the extended benefits program.

It is highly unlikely the labor market will improve enough by mid-year to justify such a dramatic reduction in assistance to the long-term unemployed. When the EUC program was established in November 1991, the unemployment rate stood at 6.9 percent. In February 1992 the rate was 7.3 percent, significantly above the November level. Moreover, in the last recession, long-term unemployment did not peak until six months *after* the recession ended. In both the recession of the early 1980s and that of the mid 1970s, the federal government maintained temporary supplemental benefit programs through the early years of the recovery.

Further extension of the temporary EUC program, however, is not sufficient to address the permanent problems in how the unemployment insurance system responds to long-term unemployment. The permanent program of assistance to the long-term unemployed — the extended benefits program — remains anemic. During recovery periods, states that fail to share in economic prosperity have generally been unable to qualify for extended benefits, even if their unemployment rates are very high. During periods when the national economy turns down and joblessness increases, only a handful of states have been able to qualify. In the next economic downturn, the long-term unemployed should not have to wait 17 months — the amount of time that passed during the current recession before the EUC program was enacted — before receiving additional aid.

Federal policy changes have played a major role in making it more difficult for states to qualify for extended benefits. In 1981, the federal threshold used to determine when a state qualifies for these benefits was raised substantially. Accordingly, it would be sensible for Congress to enact legislation that both extends the EUC program and makes permanent reforms in the extended benefits program. This would allow states time to make corresponding changes in state laws governing the extended benefits program while the EUC program continued providing additional relief during the current stretch of high unemployment.

Reforms should also be considered in another set of restrictive federal criteria enacted in 1980 and 1981 that have reduced the effectiveness of the extended benefits program. Before these changes were made, all individuals exhausting their state benefits were eligible for extended benefits in states qualifying for the program. The 1980 and 1981 changes, however, established restrictive federal eligibility criteria that make many individuals who meet the eligibility requirements for state unemployment benefits — and who have exhausted these benefits — ineligible for extended benefit assistance. Individuals who would be precluded under these criteria from receiving extended benefits are also barred from receiving EUC benefits.

The Interstate Conference of Employment Security Agencies, the association of state agencies responsible for administering unemployment insurance, recently reported that these federal restrictions are barring the provision of EUC benefits to some who should receive them, while also placing unnecessary burdens on employers and adding to administrative costs. For example, the federal restrictions bar a worker from receiving any extended or EUC benefits for all the remaining time the worker is unemployed if the worker's job search efforts are interrupted for a single week *for any reason;* even if this is because the worker has become ill or must care for a sick child. The Interstate Conference concluded: "The stringent requirements that apply to EB/EUC are inconsistent with the fact that these programs are available only because economic times are bad and jobs are scarce....These requirements are not designed to help people get back to work, but merely to restrict the number who qualify for extended or emergency benefits."

Increasing the Proportion of the Unemployed Receiving Regular Benefits

The wide variation among states in the share of the unemployed receiving unemployment benefits is partly related to wide variations in state eligibility standards and policies. In some states, changes in state policies during the 1980s contributed to the decline in unemployment protection. Policies governing who can qualify for state unemployment benefits deserve review. Reforms at both federal and state levels could strengthen unemployment insurance protection

Federal Reforms

The federal government could strengthen certain standards governing state unemployment insurance programs. For example, a worker's eligibility for benefits — and the amount and duration of benefits the worker receives — depend on the worker's earnings during a "base period." In most states, the base period is the first four of the last five completed calendar quarters before a worker files for benefits. This means that earnings in the current quarter and the previous quarter (three to six months of an applicant's most recent work experience) are ignored. For a worker filing for benefits in March 1992, the base period would be October 1990 through

September 1991, and earnings after September would not count. This severely restricts benefits for workers whose employment is concentrated in recent months.

Six states do include all or nearly all recent months of work history in determining eligibility. Federal standards could require that every state at least include earnings in the most recent completed calendar quarter, while leaving it to states to determine how to include this work experience.

Another possible reform would involve placing modest limitations on state discretion in disqualifying unemployment insurance applicants. Workers who voluntarily leave their jobs are typically disqualified from receiving benefits, as they generally should be. But some states go so far as to deny benefits to employees with many years of work experience who are forced to leave their jobs for reasons largely beyond their control — such as in instances where a worker's child care arrangements collapse or a child falls ill for an extended period. Other states are not so rigid. Federal standards could restrict the ability of states to disqualify certain workers from receiving unemployment insurance benefits for the duration of their unemployment spell, particularly if they leave their jobs due to family responsibilities.

Outreach

One reason the share of the unemployed receiving unemployment insurance benefits has fallen is that a growing number of unemployed people who may be eligible for unemployment insurance benefits fail to apply for them. A study by economists Rebecca Blank and David Card found that a decline in the share of eligible unemployed workers who actually apply for and receive benefits was the most important factor explaining the decline in state UI protection in the 1980s. This study also found that the proportion of eligible workers who apply for unemployment insurance varies widely among states. Another study, by Wayne Vroman of the Urban Institute, found that a substantial proportion of job losers do not apply for benefits because they believe they are ineligible. Taken together, these findings suggest that lack of understanding of eligibility rules is a barrier to receipt of UI benefits and that outreach could increase the likelihood that eligible individuals would apply for assistance.

Changes in State Policies

Decisions at the state level to modify state policies could also increase the protection provided under the unemployment insurance system. For example, states could reexamine their formulas for determining benefit duration. Sometimes these formulas can be quite restrictive, cutting off benefits quickly to low-wage workers. States can also act on their own to modify their "base period" so that workers whose

employment is concentrated in recent months are not denied benefits. Similarly, they can review their disqualification provisions to see if they are denying benefits too readily to certain types of workers, such as those who have left their jobs to meet family responsibilities.

States can also step up outreach efforts, focusing on both regular UI benefits and EUC benefits. Of those unemployed workers who have exhausted their regular benefits, the proportion receiving EUC benefits appears to vary substantially among the states.

Financing Reforms

Reforms such as those described here can be financed within the unemployment insurance system. Currently, employers pay a federal tax equal to 0.8 percent of the first $7,000 of each worker's wages. This federal "taxable wage base" of $7,000 has been raised only three times since being set at $3,000 in 1935. By contrast, Social Security taxes are paid on the first $55,500 in earnings. When the unemployment insurance and Social Security programs were created, their taxable wage bases were set at the same level.

The unemployment insurance tax structure creates inequities. An employer pays the same amount of federal UI tax for an employee earning $7,000 as for an employee earning $50,000 or $100,000. Yet the worker paid at the higher wage level gets larger unemployment benefits if he or she loses a job.

If the wage base were raised sufficiently, it could be coupled with a substantial reduction in the unemployment insurance tax *rate* that employers pay — and still produce an increase in revenues sufficient to finance the costs of extending unemployment protection to a larger share of jobless workers.

Alternatively, improvements in unemployment insurance protection could be financed outside the UI system. If this is done, revenues should be raised in a progressive manner that takes a larger share of income from the wealthy than from the middle class or the poor. This is particularly appropriate in light of the evidence demonstrating that income trends over the past 15 years — as well as changes in federal tax burdens — have heavily benefitted the wealthiest segment of the population.

I. Unemployment Insurance Protection in 1991

In 1991, only four in every ten unemployed workers — 42 percent — received unemployment insurance benefits in an average month. From July 1990, when the recession began, until November 1991, the unemployment insurance system provided a lower level of protection than in any other recession since the end of World War II.

Moreover, from July 1991 through October 1991, an average of 300,000 workers exhausted their regular unemployment benefits each month without qualifying for any additional unemployment benefits. Never before in the history of the unemployment insurance program, with data available back to 1951, have such large numbers of workers exhausted their state benefits and not immediately qualified for more help.

The poor performance of the unemployment insurance system in 1991 reflects enduring problems with the program. In five of the last eight years, the percentage of the unemployed receiving benefits fell to record lows.

The hardship caused by a failing unemployment insurance program during an economic downturn did not go unnoticed last year. Still, it took until November — 17 months into the recession — before legislation to help address this problem was signed into law. The temporary emergency unemployment compensation program which the legislation established provides additional assistance to those who have exhausted their basic benefits. The EUC program was strengthened further in February 1992.

The EUC program, however, falls far short of returning unemployment insurance protection to adequate levels. First, the program is temporary; it expires in mid-1992. Second, it addresses only one of the problems of the unemployment

insurance system — the lack of additional aid for those who exhaust their regular benefits during periods of high unemployment. Other problems with the system, such as a sharp decline in the percentage of unemployed receiving *any* basic benefits, are not addressed at all. Comprehensive, permanent reform of the unemployment insurance system is needed.

Record Low Levels of Protection Continue

The proportion of unemployed workers who qualify for unemployment insurance benefits typically rises and falls with economic trends. During recessions, the proportion tends to rise for two reasons. First, the share of the unemployed consisting of "job losers" increases during economic downturns. It is job losers, as distinguished from unemployed people who leave their jobs voluntarily or are new entrants or reentrants into the labor market, that the unemployment insurance system is primarily designed to assist.[1] Second, additional unemployment benefits are generally made available to people who exhaust their regular benefits only during periods of high unemployment.

While the share of the unemployed receiving benefits has followed this cyclical pattern in recent years, the level of unemployment insurance protection provided during both the recovery of the 1980s and the current recession compares unfavorably to the levels of protection provided in previous decades.

- Prior to 1984, the share of the unemployed receiving unemployment insurance benefits in an average month surpassed 40 percent in every year on record except 1966, when it stood at 39 percent. In most years, unemployment insurance protection exceeded 40 percent by a substantial margin.

- By contrast, from 1984 to 1989, the proportion of the unemployed receiving benefits averaged 33 percent. In five of these six years, the proportion of the unemployed receiving benefits fell to the lowest level ever recorded. (Data are available for all years back to the end of World War II.)

- This trend of record low unemployment insurance protection continued into the recession years of 1990 and 1991. The proportion of the

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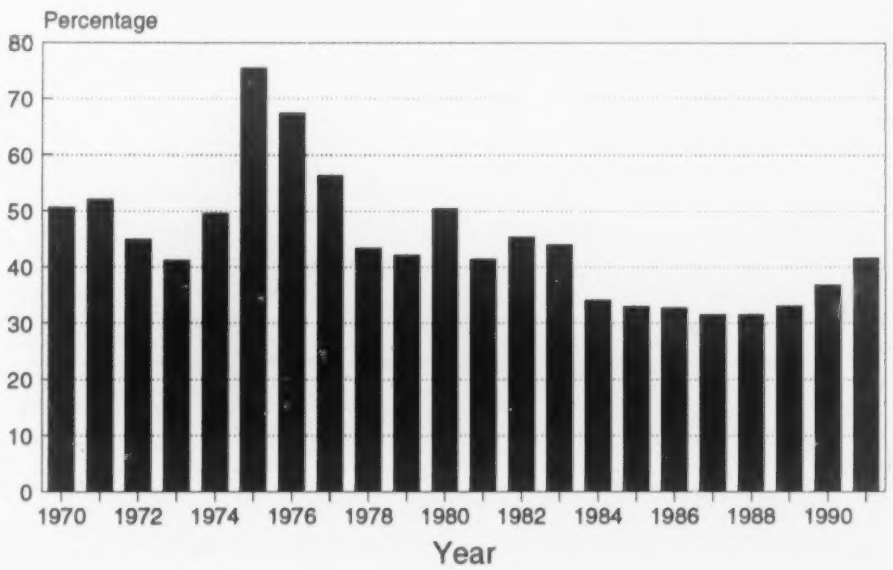
[1] Since unemployment insurance is primarily intended to cover unemployed people who have involuntarily lost their jobs, as opposed to new entrants or re-entrants into the workplace and people who have quit their job or were fired for misconduct, the appropriate target for unemployment insurance coverage is *not* 100 percent of the unemployed population.

Figure 1
Percentage of Unemployed Receiving Unemployment Insurance Benefits



Source: Center on Budget and Policy Priorities and U.S. Department of Labor.

unemployed receiving benefits increased in 1990 and 1991, as would be expected in a period of rising unemployment. But the increase was modest, with just 37 percent of the unemployed receiving benefits in 1990 and 42 percent receiving benefits in the more severe recession year of 1991.[2]

- In fact, the percentage of the unemployed receiving benefits in 1990 was lower than in any other recession year since the end of World War II.

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[2] The increase from 1990 to 1991 in the percentage of the unemployed receiving benefits largely reflects the weaker labor market prevailing in 1991. The unemployment rate averaged 5.5 percent in 1990, but averaged 6.7 percent in 1991. The proportion of the unemployed consisting of job losers also jumped from 1990 to 1991, increasing from 48.3 percent in 1990 to 54.5 percent in 1991. (The proportion of the unemployed consisting of job losers equaled 45.7 percent in 1989.)

A small part of the increase in unemployment protection in 1991 was due to changes in federal policies. The federal emergency unemployment compensation program that took effect in mid-November contributed to the increase in unemployment insurance receipt in 1991.

The share of the unemployed receiving benefits in 1991 was nearly identical to the previous low for a recession year.[3]

- By contrast, in the recession year of 1980, some 50 percent of the unemployed received aid. In the more severe recession year of 1975, an all-time high of 76 percent of the unemployed received aid.[4] (See Table I.)

- The decline in unemployment insurance protection has caused large numbers of workers to suffer significant income losses during the current recession. If the share of the unemployed receiving benefits had been the same in 1991 as in 1980, nearly 750,000 more jobless workers would have received aid in an average month last year.

Record Numbers Exhaust State Benefits Without Qualifying for More Aid

The permanent unemployment insurance system includes two basic parts. The first part consists of regular, state-funded benefits that are provided for a maximum of 26 weeks in virtually all states. Gary Burtless of the Brookings Institution has compared the share of the unemployed who now receive state unemployment insurance benefits to the share that received these benefits between 1967 and 1979. (In making this comparison, Burtless included adjustments for changes in the composition of the unemployed over the business cycle.) Burtless found that state unemployment insurance protection is now about one-fifth lower than in the 1967-1979 period.[5]

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[3] Until 1990, the recession year in which the share of the unemployed receiving benefits was lowest was 1981. Some 41.4 percent of the unemployed received benefits that year. In 1991, 41.6 percent received benefits.

Two factors affect the comparison of 1991 to 1981, but they tend to offset each other. On the one hand, the data available for 1981 include Puerto Rico and the Virgin Islands in the tabulation of UI beneficiaries but not in the tabulation of the unemployed. This results in an overstatement of between one-half and one percentage point in the proportion of the unemployed that received benefits in 1981 in the 50 states and the District of Columbia. The 1991 data do not include any information on Puerto Rico and the Virgin Islands. On the other hand, the proportion of the labor force consisting of job losers was higher in 1991, when it equaled 54.5 percent, than in 1981, when it stood at 51.6 percent. This suggests the proportion of the unemployed receiving unemployment benefits should have been a couple of percentage points higher in 1991 than in 1981 if the unemployment insurance system had been of equal strength.

[4] The percentage of the unemployed receiving benefits in 1990 and 1991 was also lower than in the severe recession year of 1982, but the difference is modest. Many of the changes in the UI program that have resulted in lower unemployment insurance protection during the current recession were made just prior to or during the recession of the early 1980s. Consequently, these changes also weakened protection in those years.

[5] Gary Burtless, Testimony before the Joint Economic Committee, January 4, 1991.

Table I
Unemployed Workers Receiving Unemployment Insurance,
1960-1991

Year	Percentage of Unemployed Receiving Benefits	Unemployment Rate
1960	53.8%	5.5%
1961	63.5	6.7
1962	49.8	5.5
1963	48.5	5.7
1964	46.3	5.2
1965	43.1	4.5
1966	39.3	3.8
1967	42.7	3.8
1968	42.1	3.6
1969	41.6	3.5
1970	50.6	4.9
1971	52.0	5.9
1972	44.9	5.6
1973	41.1	4.9
1974	49.6	5.6
1975	75.5	8.5
1976	67.4	7.7
1977	56.3	7.1
1978	43.3	6.1
1979	42.1	5.8
1980	50.4	7.1
1981	41.4	7.6
1982	45.3	9.7
1983	43.9	9.6
1984	34.1	7.5
1985	32.9	7.2
1986	32.7	7.0
1987	31.5	6.2
1988	31.5	5.5
1989	33.0	5.3
1990	36.8	5.5
1991	41.6	6.7

Note: Data for years before 1985 are from historical tables that include Puerto Rico and the Virgin Islands in the tabulation of unemployment insurance beneficiaries but not in the tabulation of the unemployed. The pre-1985 data thus overstate coverage in these years by an estimated one-half to one percentage point. None of the data for 1985 through 1991 include beneficiaries in Puerto Rico and the Virgin Islands.

Source: U.S. Department of Labor, *Employment and Earnings*, and data computed by the Center on Budget and Policy Priorities from U.S. Department of Labor weekly "Unemployment Insurance Claims" reports.

The second part of the permanent unemployment insurance system consists of the federal-state "extended benefits" program. When the level of unemployment insurance receipt in a state rises above a specified threshold, up to 13 additional weeks of "extended" UI benefits are provided to most unemployed workers in the state who have received the maximum of 26 weeks of regular benefits and are still looking for a job.[6] The concept behind the extended benefits program is that when unemployment is high, it usually takes longer to find a new job — and many workers may consequently remain without employment for a longer period of time due to no fault of their own.

As the nation fell into recession in 1990, the need for extended benefits began to grow. There was an upswing in the number of jobless workers who exhausted their state unemployment insurance benefits and were in need of extended benefits. This number grew faster in 1991.

- From 1989 to 1990, the number of state benefit exhaustees increased 19 percent.

- Between 1990 and 1991, the number jumped another 49 percent. The number of people exhausting their state UI benefits reached 3.5 million in 1991.

Only a small fraction of unemployed workers who exhausted their state benefits in 1991 were eligible to receive extended benefits. Large cutbacks in the extended benefits program in the early 1980s greatly restricted its scope. These cutbacks were made as part of the budget reductions requested by the Reagan Administration and passed by Congress in 1981.

Eligibility for the extended benefits program during the current recession peaked in April and May 1991. Even then, the vast majority of the unemployed who exhausted their state benefits were ineligible for extended benefits. During those two months, just eight states and Puerto Rico qualified for the extended benefits program. (See Figure 2.)

In other months in 1991, the inadequacy of the extended benefits program was still more glaring.

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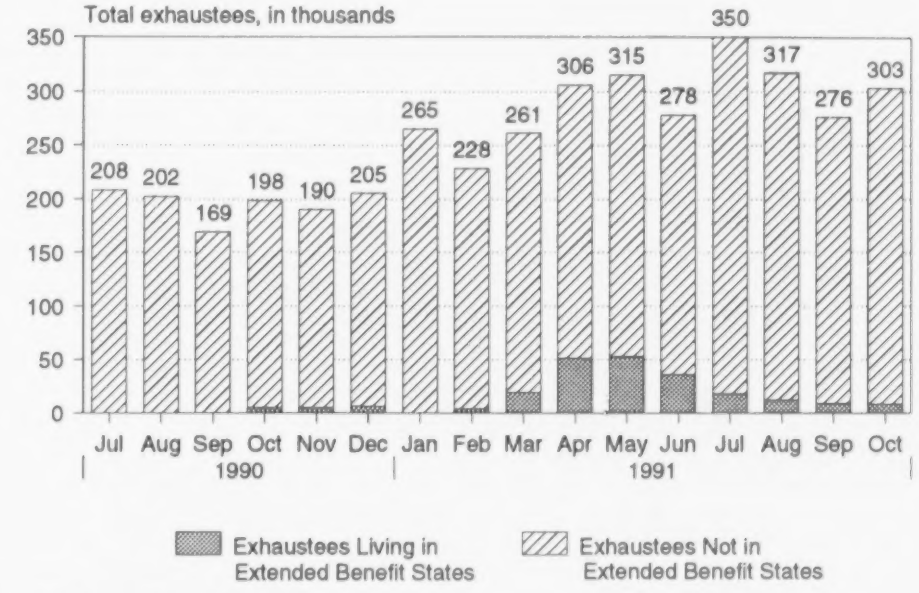
[6] The factor (or "trigger") used to determine when a state may provide extended benefits to its long-term unemployed is the "insured" unemployment rate (as distinguished from the regular or "total" unemployment rate widely reported in the media). The insured unemployment rate is computed by dividing the number of persons collecting state unemployment benefits by the total number of persons in the state in jobs covered by the unemployment insurance system. Almost all wage and salary jobs are covered by the UI system.

Figure 2
Availability of Extended Benefits for Jobless Workers
Exhausting State Unemployment Insurance Benefits, July 1990-October 1991



Center On Budget and Policy Priorities
Source: U.S. Department of Labor

- Massachusetts and Michigan lost their eligibility for extended benefits in June, even though their unemployment rates exceeded nine percent. West Virginia became ineligible for extended benefits in July despite an unemployment rate of more than *ten* percent.

- In July, some 350,000 unemployed people had their state benefits expire before they were able to find new employment. Only 18,000 of these workers — about five percent — lived in states where they could qualify for extended benefits. That left 332,000 workers without additional aid, the largest number of state exhaustees not qualifying for additional aid in any month on record.[7]

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[7] See the Center on Budget and Policy Priorities report, "Unemployment Benefit Exhaustion Hits Record Level in July," August 29, 1991.

- Nor was July an aberration. From August through October, an average of 289,000 workers per month exhausted their state benefits without qualifying for extended benefits. The number of state exhaustees not receiving additional aid from August through October was unprecedented in the history of the unemployment insurance program.

By mid-October, no state in the nation qualified for the extended benefits program.[8] This was true even though more than 300,000 workers exhausted their state benefits in October at a time when the national unemployment rate equaled 6.9 percent, a rate as high or higher than in any preceding month of 1991. In some states, the absence of extended benefits was particularly notable. Eleven states and the District of Columbia had unemployment rates above seven percent but were ineligible for the program. Five states and the District had unemployment rates exceeding eight percent in October.

Decline in Unemployment Protection Likely to Increase Poverty

When unemployment insurance protection declines, unemployed workers and their families are more likely to experience economic hardship. For some previously middle-class workers, this may mean not only a decline in their standard-of-living, but also that they sink into poverty.

The Congressional Budget Office has examined the poverty status of individuals who exhausted their unemployment benefits but remained unemployed three months later. The CBO study compared the poverty rate for these people during the period they were receiving unemployment benefits to their poverty rate in the period after they exhausted their benefits. The study found their monthly poverty rate was *twice as high* after they exhausted their benefits. Nearly one in three of those who had exhausted their benefits was poor.*

Other studies have found that unemployed individuals who do not qualify for benefits to begin with are more likely to be poor than those who do receive benefits. In part, this is true because those who do not qualify for benefits are more likely to be workers with low wages or intermittent employment; these workers are consequently more likely to be poor.

* Ralph E. Smith and Bruce Vavrichek, the Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits*, February 1990.

[8] Puerto Rico did remain eligible.

Recent Temporary Legislation Helps but is Insufficient

During most post-World War II recessions, the federal government has enacted a temporary program of supplemental unemployment benefits that are provided to unemployed workers who have exhausted their regular or extended benefits and are still looking for work. In November 1991, some 17 months after the recession began, Congress and the President agreed to provide such supplemental benefits. (Congress had passed legislation in both August and September to provide supplemental benefits, but the President chose not to approve those bills.)

The emergency unemployment compensation legislation enacted in November provided additional unemployment benefits for a maximum of at least 13 weeks in all states. These benefits were provided both to workers who exhausted their state benefits during or after November 1991 and to many workers who exhausted their state or extended benefits prior to November and were still unemployed.[9] (Any weeks of benefits that a worker received under the extended benefits program are subtracted from the weeks of emergency unemployment compensation benefits the worker can otherwise obtain.)

The EUC program was strengthened in February 1992. A maximum of at least 26 weeks of supplemental benefits is now provided in all states. In some states, up to 33 weeks of supplemental benefits are available. The program expires on July 4, 1992.

While it took a long time to be enacted, the EUC program now provides substantial assistance to the unemployed.

- From the beginning of the recession in July 1990 to November 1991 — that is, before the EUC program took effect — only 40 percent of the unemployed received unemployment insurance benefits in the average month. This level of protection was lower than in any other recession since the end of World War II.

- In December 1991, with the EUC program up and running, the percentage of the unemployed receiving unemployment benefits rose to

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[9] Workers who exhausted their state or extended benefits prior to November 1991 and were still unemployed in November were eligible for emergency unemployment compensation benefits if their "benefit year" had not ended prior to March 1991. In general, a "benefit year" is a 52-week period beginning at the time a worker files a valid claim for unemployment insurance benefits. The terms of a worker's benefits, such as the number of weeks of eligibility and the dollar value of the benefits, are fixed for this benefit year period.

more than 50 percent. More than one million workers received EUC benefits that month.

Despite the benefits the EUC program provides, however, it does have limitations. During the recession, three parts of the unemployment insurance system had not been working effectively; the EUC program repaired only one.

One feature of the unemployment insurance system notable for its absence during the first 17 months of the recession was a temporary supplemental benefits program. This is the problem the EUC program addresses. If the EUC program expires at the start of July, this problem will reappear.

The second failing part of the unemployment insurance system is the extended benefits program. As of March 1992, only five states meet the federal criteria that allow them to qualify for the extended benefits program. In other words, at the time the labor market is so weak that the federal government has decided to provide a maximum of at least 26 weeks of EUC benefits in all states, only five states meet the criteria for extended benefits. This statistic illustrates the anemic nature of the extended benefits program and the severity of its qualification criteria. (None of the five states currently eligible for the extended benefit program have activated it. This is because any extended benefits a worker receives are subtracted from the amount of EUC benefits the worker can obtain. States have to pay half the share of extended benefits, but the EUC program is funded fully by the federal government.)

The third weak link in the unemployment insurance system is the decline in the proportion of the unemployed that receive benefits under the basic state UI programs. As noted, Gary Burtless has found that the proportion of the unemployed receiving state benefits is about 20 percent lower now than it was in the 1970s.

Aside from expanding protection for ex-members of the military services, the EUC legislation makes virtually no changes in either the extended benefits program or basic state unemployment insurance protection.[10] Permanent reforms are needed, however, in both of these areas. In the next economic downturn, the long-term unemployed should not have to wait 17 months before receiving additional unemployment aid. Moreover, the extended benefits program needs to be improved for states that experience high unemployment rates during periods when the nation as a whole is not in a recession and a supplemental benefits program is not in effect. Finally, federal laws should help ensure more adequate protection under state

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[10] The EUC legislation did restore the state option to extend unemployment insurance benefits to non-professional school employees who are laid off while school is out. This is a potential expansion of state protection.

Decline in Protection Stems From Both Policy and Non-Policy Factors

A variety of factors contributed to the decline in unemployment insurance protection in the 1980s and the early 1990s. While some of these factors are not the result of policy decisions, other factors are.

One factor contributing to the drop in protection that is unrelated to changes in unemployment insurance policy is the decreasing share of employment in the manufacturing sector. Traditionally, unemployed workers in the manufacturing sector have been more likely to receive unemployment insurance benefits than unemployed service sector workers are. This reflects the relatively large number of part-time, intermittent, and temporary jobs with low wages in services industries; such jobs often provide insufficient employment and earnings to qualify for unemployment insurance. It also reflects the greater unionization among manufacturing workers. This is an important factor because unions often assist their unemployed members in seeking unemployment insurance benefits.

In addition to labor market changes, both the federal and state governments adopted policies in the 1980s that have undermined unemployment insurance protection, with federal policy changes playing the larger role. Federal legislation enacted in 1981 made it much more difficult for states and individuals to qualify for extended benefits. The federal government also began to charge interest on loans to state unemployment insurance trust funds, providing states more incentive to limit benefits in order to keep their unemployment insurance trust funds in balance even during periods of high unemployment. Partly because of these new loan requirements, some states did reduce unemployment insurance protection in the 1980s. These states froze or reduced benefit levels, increased the minimum requirements for benefits, decreased the duration of benefits, or increased the severity of their disqualification rules.

Other factors contributing to declining unemployment insurance protection may have been partially the result of policy actions. There was a decline during the 1980s in the proportion of unemployed workers eligible for benefits that applied for them. This decline may reflect more restrictive application and approval practices that effectively discouraged some workers from applying, as well as the fact that federal policy shifted between 1978 and 1987 from not taxing unemployment insurance benefits at all to fully taxing these benefits. This decreased the net or after-tax value of unemployment insurance benefits and may have caused some workers not to apply for aid.

While it is not possible to make a precise determination of the extent to which various factors contributed to the decline in unemployment insurance protection, the role of policy decisions is central. If the federal government were to extend the emergency unemployment compensation program, reform and bolster the extended benefits program, and take steps to ensure stronger state protection, more adequate unemployment insurance protection would result. In addition, states could take steps, themselves, to strengthen their unemployment insurance systems.

unemployment insurance programs; in some states, just one in five of the unemployed receives unemployment insurance benefits.

Options for permanent reforms in the unemployment insurance system are explored in the final chapters of this report. But first, Chapter II describes unemployment protection in 1991 on a state-by-state basis.

II. State Unemployment Insurance Protection Varies Widely

Unemployment insurance protection differs from state to state. In 1991, the proportion of jobless workers receiving benefits in an average month ranged from 21 percent in South Dakota to 70 percent in Alaska. Some of these disparities are due to differences in state economies and the demographics of state workforces. The disparities are also partly due, however, to significant differences in state unemployment insurance programs.

State Protection Rates

Some state programs are highly restrictive. Unemployment protection in these states is quite low. In 14 states, fewer than one-third of the unemployed received benefits in an average month in 1991. By contrast, in 13 states and the District of Columbia, more than half of the unemployed received benefits.

- The states in which fewer than one-third of the unemployed received benefits include states in all regions of the country other than the Northeast and the West Coast (although in New Hampshire, a Northeastern state, only 33.5 percent of the unemployed received benefits). Such disparate states as Florida, Indiana, West Virginia and Colorado are among the states in the low-protection category. (See Table II.)

- In three states, the proportion of the unemployed receiving benefits in 1991 fell below one-fourth. These states are Oklahoma, South Dakota, and Virginia.

Table II
The 14 States in Which Fewer Than One Third of Unemployed Workers Received Unemployment Insurance Benefits In an Average Month in 1991

State	Rank from Lowest to Highest	Percentage of Unemployed Workers Receiving Benefits
South Dakota	1	20.8%
Oklahoma	2	21.6
Virginia	3	24.0
Texas	4	26.0
Louisiana	5	27.0
Florida	6	27.8
New Mexico	7	28.2
Utah	8	29.0
Indiana	9	29.5
Mississippi	10	29.5
West Virginia	11	31.1
Colorado	12	32.1
Alabama	13	32.4
Wyoming	14	32.5

Source: Calculations by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

Among the states with low protection rates were several of the nation's more populous. In these states, the numbers of unemployed workers going without benefits were especially large. (See Table III for levels of unemployment insurance protection and unemployment rates for all states.)[11] As noted previously, unemployment insurance protection is not intended to cover all jobless people. Its primary aim is to protect those who have involuntarily lost their jobs.[12]

- In Texas, where 26 percent of the unemployed received benefits, 418,000 jobless workers went without benefits in an average month. Texas had the fourth lowest protection rate of any state.

- Florida, with the sixth lowest level of protection, provided benefits to 28 percent of its unemployed workers. Some 340,000 jobless workers failed to receive benefits in an average month.

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[11] The numbers and percentages of unemployed workers who received benefits include workers who received extended benefits or emergency unemployment compensation benefits, as well as those who received regular state unemployment insurance benefits.

[12] Nationwide, 55 percent of unemployed workers were job losers in an average month in 1991.

In a number of other states with low levels of protection, the numbers of jobless workers lacking benefits were also high.

- In Virginia, where 24 percent of the unemployed received benefits — the third lowest rate in the nation — nearly 150,000 jobless workers went without benefits in an average month.

- In Indiana, 117,000 jobless workers failed to receive benefits in an average month, while in Louisiana, 100,000 went without benefits. Some 30 percent of the unemployed received benefits in Indiana; in Louisiana, 27 percent did.

Some states with very low levels of unemployment protection were states with weak economies. In these states, unemployment rates were high, and unemployed workers were likely to have greater difficulty in finding a job. Nevertheless, for jobless individuals who could not locate work, unemployment insurance often was not available.

- West Virginia had the nation's highest unemployment rate last year — 10.5 percent. Yet only 31 percent of the jobless in West Virginia received benefits in an average month. This was the 11th lowest protection rate in the nation.

- In Mississippi, where the unemployment rate was 8.6 percent — fourth highest in the nation — 30 percent of the unemployed received benefits. This represented the country's 10th lowest protection rate.

In addition to the 14 states where fewer than one third of the unemployed received benefits, another 16 states had unemployment protection rates below the national average. In these states, fewer than 41.6 percent of the unemployed — but more than one third — received benefits.

This group of states includes a number with high unemployment rates. It also includes relatively populous states in which the number of jobless workers going without benefits was large. One state in this group — Michigan — stands out. Although Michigan had the nation's second highest unemployment rate — 9.2 percent — it had a slightly below-average rate of unemployment insurance protection. As a result, nearly a quarter million jobless workers went without benefits in an average month, a fact made more striking by actions Michigan took in

Table III
Unemployment and Unemployment Insurance Protection by State, 1991

State	Percentage of Unemployed Receiving Benefits	State Rank from Lowest to Highest	Unemployment Rate in 1991
Alabama	32.4%	13	7.2%
Alaska	70.0	51	8.5
Arizona	37.0	19	5.7
Arkansas	40.1	25	7.3
California	50.4	38	7.5
Colorado	32.1	12	5.0
Connecticut	54.0	42	6.7
Delaware	34.8	18	6.2
District of Columbia	56.8	46	7.7
Florida	27.8	6	7.3
Georgia	44.1	34	5.0
Hawaii	55.3	44	2.8
Idaho	49.0	35	6.1
Illinois	37.9	21	7.1
Indiana	29.5	9	5.9
Iowa	37.0	20	4.6
Kansas	42.1	33	4.4
Kentucky	34.1	16	7.4
Louisiana	27.0	5	7.1
Maine	60.2	49	7.5
Maryland	41.6	31	5.9
Massachusetts	50.8	39	9.0
Michigan	41.0	30	9.2
Minnesota	41.9	32	5.1
Mississippi	29.5	10	8.6
Missouri	39.8	23	6.6
Montana	34.3	17	6.9
Nebraska	40.4	26	2.7
Nevada	58.3	47	5.5
New Hampshire	33.5	15	7.2
New Jersey	53.7	41	6.6
New Mexico	28.2	7	6.9
New York	49.3	37	7.2
North Carolina	40.8	28	5.8
North Dakota	40.0	24	4.1
Ohio	40.8	29	6.4
Oklahoma	21.6	2	6.7
Oregon	60.0	48	6.0
Pennsylvania	51.0	40	6.9
Rhode Island	64.1	50	8.5
South Carolina	39.6	22	6.2
South Dakota	20.8	1	3.4
Tennessee	40.4	27	6.6
Texas	26.0	4	6.6
Utah	29.0	8	4.9
Vermont	56.0	45	6.4
Virginia	24.0	3	5.8
Washington	55.2	43	6.3
West Virginia	31.1	11	10.5
Wisconsin	49.2	36	5.4
Wyoming	32.5	14	5.1

Source: Calculations by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

1991 resulting in what are probably the deepest cuts in programs for the poor any state has made in recent American history.[13]

- Some 41 percent of the unemployed in Michigan — about two in five — received benefits in an average month. As a result, 247,000 jobless workers went without benefits in an average month.

- For jobless individuals who are unable to obtain unemployment benefits — and who do not have children and are not elderly or disabled — the only source of government cash support used to be Michigan's general assistance program. The state virtually terminated this program in the fall of 1991, however, cutting off cash assistance for 82,000 indigent people. The state also terminated health insurance for nearly all of these individuals, while cutting its AFDC program as well.

Another state worthy of note is Illinois. In that state, 38 percent of the unemployed received benefits in an average month, leaving 268,000 without benefits. Illinois cut its general assistance program sharply. The unemployment rate in the state averaged 7.1 percent.

Similarly in Ohio, 205,000 jobless workers went without benefits in an average month; 41 percent of the jobless received unemployment checks. Ohio cut its general assistance program about in half, reducing benefits to $100 a month for single individuals (17 percent of the poverty line) and limiting eligibility to six months in a 12-month period. These were the largest general assistance cuts made by any state except Michigan.

Some 20 states had above average levels of protection.[14] Even in most of these states, only about half of the unemployed received benefits in an average month.

Benefit Exhaustees in 1991

Last year the number of jobless workers who exhausted their regular unemployment benefits without being able to find employment increased substantially. This number climbed from 2.3 million in 1990 to 3.5 million in 1991.

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[13] A fuller explanation of these budget reductions can be found in the recent study by the Center on Budget and Policy Priorities and the Center for the Study of the States, *The States and the Poor: How Budget Decisions in 1991 Affected Low Income People*, December 1991.

[14] In one state Maryland, the unemployment protection rate was right at the national average.

Unemployment Protection Weaker in Rural States

States with low levels of unemployment insurance protection include both states with predominantly rural populations and states with predominantly urban populations. Mississippi, South Dakota, West Virginia, and Wyoming are examples of rural states with low protection rates.* In each of these states fewer than one in three unemployed workers received benefits in an average month in 1991. Urban states with low protection rates include Florida and Illinois.**

Yet while there are urban states among those with low protection rates, the unemployment insurance program does tend to be weaker in rural than urban jurisdictions. This can be seen by comparing unemployment protection levels in the 15 most urban and 15 most rural states.

The most urban states are those with the highest proportions of their populations residing in metropolitan areas. The 15 most urban states are California, Colorado, Connecticut, Florida, Illinois, Maryland, Massachusetts, Nevada, New Jersey, New York, Pennsylvania, Rhode Island, Texas, Washington, and the District of Columbia, which is counted as a state here. The most rural states are the states in which the highest proportions of the population live outside metropolitan areas; this group of states includes Alaska, Arkansas, Idaho, Iowa, Kentucky, Maine, Mississippi, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Vermont, West Virginia, and Wyoming.

- Among the 15 most rural states, the median level of unemployment protection in 1991 was 37 percent (i.e., in the median state in this group, 37 percent of the unemployed received benefits in an average month in 1991).
- By contrast, among the 15 most urban states, the median level of unemployment protection was 51 percent.

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* In 1990, approximately 70 percent of Mississippi's population lived in rural areas, as did 71 percent of South Dakota's population, 64 percent of West Virginia's, and 70 percent of Wyoming's.

** In 1990, approximately 91 percent of Florida's population lived in urban areas, as did 83 percent of Illinois'.

Source: Bureau of the Census and Department of Labor.

Most of these were workers who exhausted their regular benefits in the first 10 months of 1991 — before the emergency employment compensation program was enacted — and who were unable to receive any extended benefits because their state did not qualify to pay these benefits. Some 2.7 million unemployed workers exhausted their regular unemployment benefits in the first 10 months of 1991 without qualifying for any extended benefits. This represented a 43 percent increase over the 1.9 million jobless who exhausted their regular benefits without qualifying for extended benefits during the first 10 months of 1990. (Some of those who exhausted

their regular benefits during the first 10 months of 1991 did qualify for EUC benefits after the program was enacted in November.)

In six states — Delaware, Georgia, Maryland, New Hampshire, North Carolina, and Virginia — the number of jobless workers who exhausted their regular unemployment benefits without qualifying for extended benefits more than doubled between the first 10 months of 1990 and the first 10 months of 1991. None of these states qualified for the extended benefits program during 1991. In South Carolina, the number of exhaustees nearly doubled during this period, rising 96 percent, while in Florida the number jumped 85 percent. In nine other states, including California, New Jersey, New York, and Pennsylvania, the number of exhaustees jumped more than 50 percent. These states, too, failed to qualify for extended benefits. (See Table IV.)

In only seven states did the number of people exhausting state benefits and not qualifying for extended benefits decrease between the first 10 months of 1990 and the comparable period for 1991. Not surprisingly, all but one of these are states that did qualify for the extended benefits program in 1991.[15] (These states are Alaska, Maine, Massachusetts, Michigan, Rhode Island, and West Virginia.) Oregon and Vermont, the only other states that qualified for the extended benefits program in 1991, registered very slight increases in the number of people exhausting regular state unemployment insurance.

These data illustrate the difference the extended benefits program can make, as well as the harsh impact of having rules so restrictive that few states can qualify for the program even during a recession.

Decline in State Unemployment Protection Rates in the 1980s

In most states, unemployment protection fell sharply in the 1980s. One way to measure this decline is to compare the proportion of unemployed workers receiving benefits in a state in 1991 to the proportion receiving benefits in 1980. Both were recession years with similar unemployment rates. A greater proportion of the unemployed received unemployment benefits, however, in 1980 than in 1991. Nationwide, unemployment protection declined from 50.4 percent in 1980 to 41.6 percent in 1991.

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[15] In South Dakota, the number of people exhausting their state benefits and not qualifying for extended benefits fell by 13 percent in 1991. South Dakota did not qualify for the extended benefits program.

Table IV

Jobless Workers Who Exhausted State Unemployment Benefits and Did Not Qualify for Extended Benefits, First 10 Months of 1990 and 1991

State	Number of Unemployed Exhausting Benefits in First 10 Months, 1990	Number of Unemployed Exhausting Benefits in First 10 Months, 1991	Increase or Decrease in Number of Exhaustees 1990 - 1991*	Percentage Change in Number of Exhaustees 1990 - 1991*
Alabama	23,700	31,600	7,900	+33%
Alaska	6,800	4,100	- 2,700	-40
Arizona	18,800	25,800	7,000	+37
Arkansas	17,900	23,700	5,800	+32
California	272,000	433,300	161,300	+59
Colorado	21,100	25,800	4,700	+22
Connecticut	33,900	57,200	23,300	+69
Delaware	2,000	4,500	2,500	+125
District of Columbia	9,000	14,700	5,700	+63
Florida	70,900	130,800	59,900	+85
Georgia	38,500	90,700	52,200	+136
Hawaii	2,800	4,800	2,000	+71
Idaho	8,400	11,700	3,300	+39
Illinois	93,600	128,900	35,300	+38
Indiana	23,400	39,100	15,700	+67
Iowa	13,900	18,000	4,100	+30
Kansas	17,000	20,500	3,500	+21
Kentucky	19,000	27,500	8,500	+45
Louisiana	20,200	22,100	1,900	+9
Maine	13,000	8,500	-4,500	-35
Maryland	21,500	46,700	25,200	+117
Massachusetts	95,300	82,400	-12,900	-14
Michigan	107,100	89,700	-17,400	-16
Minnesota	33,600	39,800	6,200	+19
Mississippi	16,100	21,300	5,200	+32
Missouri	39,700	55,900	16,200	+41
Montana	6,200	7,600	1,400	+23
Nebraska	5,800	7,300	1,500	+26
Nevada	8,700	16,300	7,600	+87
New Hampshire	3,000	6,800	3,800	+127
New Jersey	99,600	151,800	52,200	+52
New Mexico	7,700	9,100	1,400	+18
New York	178,700	273,300	94,600	+53
North Carolina	26,300	57,500	31,200	+119
North Dakota	4,800	5,000	200	+4
Ohio	61,900	91,000	29,100	+47
Oklahoma	14,300	17,100	2,800	+20
Oregon	21,900	23,700	1,800	+8
Pennsylvania	89,300	140,500	51,200	+57
Rhode Island	10,700	4,200	-6,500	-61
South Carolina	15,800	30,900	15,100	+96
South Dakota	800	700	-100	-13
Tennessee	42,500	62,600	20,100	+47
Texas	119,700	144,100	24,400	+20
Utah	7,200	8,900	1,700	+24
Vermont	3,500	3,800	300	+9
Virginia	18,300	40,100	21,800	+119
Washington	36,500	51,800	15,300	+42
West Virginia	36,500	9,500	-27,000	-74
Wisconsin	34,200	43,000	8,800	+26
Wyoming	2,200	2,300	100	+5
U.S. Total	1,868,700	2,668,000	799,300	+43

*These figures cover the first 10 months of the year.

Source: U.S. Department of Labor

In 34 states, the proportion of jobless workers receiving benefits was lower in 1991 than in 1980. In some states, the decline in unemployment protection was particularly large. In 18 states, the proportion of unemployed workers receiving benefits fell more than 10 percentage points. (See Table V on next page.)

In Michigan where the decline was steepest, unemployment protection fell by 27 percentage points. In 1980, some 68 percent of the state's jobless workers received benefits; in 1991, just 41 percent did. In West Virginia an average of 50 percent of jobless workers received benefits in 1980, while 31 percent did in 1991.

There were four other states — Illinois, Kentucky, Montana, and Ohio — where the proportion of the unemployed receiving benefits declined 15 percentage points or more between 1980 and 1991. In an additional 12 states, the unemployment protection rate fell between 10 and 15 percentage points.

In 20 states, protection increased. The increases, however, were generally small. In only six states, did the increase amount to more than five percentage points.

Table V
Unemployment Insurance Protection by State, 1980 and 1991

State	Percentage of Unemployed Workers Receiving Benefits, 1980	Percentage of Unemployed Workers Receiving Benefits, 1991	Percentage Point Change 1980 to 1991
Alabama	44.4%	32.4%	-12.0
Alaska	72.8	70.0	-2.8
Arizona	31.6	37.0	+5.4
Arkansas	50.7	40.1	-10.6
California	50.4	50.4	0.0
Colorado	28.8	32.1	+3.3
Connecticut	42.6	54.0	+11.4
Delaware	42.7	34.8	-7.9
District of Columbia	52.9	56.8	+3.9
Florida	29.1	27.8	-1.3
Georgia	36.4	44.1	+7.7
Hawaii	54.3	55.3	+1.0
Idaho	53.5	49.0	-4.5
Illinois	52.9	37.9	-15.0
Indiana	42.2	29.5	-12.7
Iowa	47.1	37.0	-10.1
Kansas	48.7	42.1	-6.6
Kentucky	52.8	34.1	-18.7
Louisiana	38.4	27.0	-11.4
Maine	50.3	60.2	+9.9
Maryland	38.6	41.6	+3.0
Massachusetts	54.9	50.8	-4.1
Michigan	67.5	41.0	-26.5
Minnesota	45.1	41.9	-3.2
Mississippi	43.2	29.5	-13.7
Missouri	54.6	39.8	-14.8
Montana	57.8	34.3	-23.5
Nebraska	39.7	40.4	+0.7
Nevada	46.7	58.3	+11.6
New Hampshire	36.8	33.5	-3.3
New Jersey	63.5	53.7	-9.8
New Mexico	30.2	28.2	-2.0
New York	50.4	49.3	-1.1
North Carolina	38.1	40.8	+2.7
North Dakota	52.7	40.0	-12.7
Ohio	57.4	40.8	-16.6
Oklahoma	30.3	21.6	-8.7
Oregon	54.4	60.0	+5.6
Pennsylvania	61.8	51.0	-10.8
Rhode Island	70.9	64.1	-6.8
South Carolina	43.9	39.6	-4.3
South Dakota	30.0	20.8	-9.2
Tennessee	53.2	40.4	-12.8
Texas	25.5	26.0	+0.5
Utah	41.3	29.0	-12.3
Vermont	55.0	56.0	+1.0
Virginia	32.4	24.0	-8.4
Washington	48.6	55.2	+6.6
West Virginia	50.3	31.1	-19.2
Wisconsin	62.5	49.2	-13.3
Wyoming	32.2	32.5	+0.3
U.S. Total	50.4	41.6	-8.8

Source: Calculation by the Center on Budget and Policy Priorities based on U.S. Department of Labor data.

III. Ongoing Need for Unemployment Insurance Reforms

Even after the economic recovery begins in earnest, it will take several years before the unemployment rate returns to pre-recession levels. Moreover, some shortcomings of the unemployment insurance system adversely affect many of the unemployed even at times when the national unemployment rate is low. Unless the unemployment insurance system is reformed, many jobless workers will face difficulties: they are likely to have long job searches while being forced to rely on inadequate unemployment protection.

Unemployment Problems Likely to Persist

The February 1992 labor market report, the most recent available, included some discouraging unemployment information.[16] The unemployment rate rose to 7.3 percent, the highest monthly unemployment rate in nearly seven years. There were 9.2 million unemployed people, or 2.7 million more than when the recession began. In the past four months alone, the number of unemployed has increased by 600,000.

It is difficult to predict when the economy will begin to experience economic growth strong enough to drive down the unemployment rate. Nearly all current economic projections suggest, however, it will take at least several years before unemployment returns to pre-recession levels. The Bush Administration's latest economic forecast, which was released before the February unemployment report,

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[16] The employment data contained in the report were more encouraging. The number of workers on employers payrolls increased by 164,000. In addition, the average workweek for private nonsupervisory workers rose from 34.3 hours to 34.7 hours.

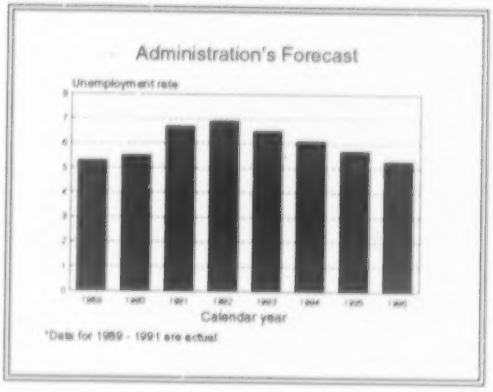
projects the average unemployment rate for the year will be *higher* in 1992 than in 1991 and will remain at high levels for an extended period of time.

- Under the Administration's forecast, the unemployment rate is expected to average 6.9 percent in 1992, slightly above its 6.7 percent average rate in 1991.

- The Administration projects that in 1993, the unemployment rate will be 6.5 percent, only slightly below its 1991 average rate.

- Moreover, under the Administration's forecast, the unemployment rate will not return to its pre-recession level — 5.3 percent — until 1996.

Figure 3
High Unemployment Rates
Likely to Persist



The forecast of the Congressional Budget Office, which also was released prior to the February unemployment report, is similar. CBO forecasts an unemployment rate of 6.9 percent in 1992 and a rate of 6.4 percent in 1993. In addition, CBO's long-term forecast is more pessimistic than OMB's. CBO estimates that in 1997 (the last year for which it has issued projections), the unemployment rate will equal 5.7 percent, still above the pre-recession level.

Inadequacy of Unemployment Insurance Evident in Both Good Times and Bad

As long as the unemployment rate remains high, the inadequacies of the unemployment insurance system will attract attention. Yet even after the national unemployment rate begins to drop significantly, the system's shortcomings will continue to cause problems. A strong national labor market does not eliminate weaknesses in all state and local labor markets, and unemployment is likely to remain high in some states long after the national rate declines. Unemployed workers in those states will still face long job searches. And while they should, in theory, be assisted by the extended benefits program, that program is much too weak to provide protection in such circumstances.

- In 1989, the national unemployment rate of 5.3 percent was the lowest in 15 years, but six states had unemployment rates that averaged seven percent or more. None of these states qualified for the extended

Unemployment Insurance and Other Parts of the Safety Net

When people experiencing unemployment do not receive unemployment insurance, they may need to rely on other parts of the safety net. But other key parts of the cash assistance safety net are themselves much weaker than in the past, were cut back further during 1991, and are not specifically designed to help the unemployed.

Some very low income parents with children who have lost their jobs or had their work hours cut back may apply for AFDC benefits. AFDC benefit levels and income limits are, however, much lower now than in previous economic downturns. At the start of 1991, the AFDC benefit provided in the typical state to a family of three with no other income had fallen 42 percent since 1970, after adjusting for inflation. Further cuts in AFDC benefits were made in various states in 1991. Nine states cut basic benefits below their previous levels for some or all AFDC families, while an additional 31 states froze benefits, allowing the purchasing power of the benefits to decline. Overall, state AFDC cuts in 1991 were the largest in at least a decade.

For unemployed people who do not have children, little or no cash assistance may be available if they fail to receive unemployment benefits. Many states and localities lack any general assistance program or else limit such a program to people who are elderly or have disabilities. Moreover, nearly half a million people — more than one-third of GA recipients nationwide — were affected by severe cutbacks in GA programs enacted in 1991 in a number of states.

A number of the unemployed also fail to meet the stringent assets limits for means-tested programs. Families are ineligible for AFDC if their countable assets exceed $1,000. To receive food stamps, a household's countable assets must be less than $2,000. In neither program have the assets limits been adjusted for inflation for a number of years, making the limits significantly stricter than in previous recessions.

Moreover, the unemployment insurance program is, as its name implies, supposed to function as an *insurance* program that protects most moderate and middle-income people from being driven into poverty — and having to go on welfare — if they lose their jobs. The program does not meet this goal as well today as in the past. It is also true that restrictive state rules are especially likely to exclude lower-income workers from receiving unemployment aid. The Congressional Research Service has found that low-wage workers are less likely than other workers to qualify for unemployment benefits.

Accordingly, weak unemployment insurance protection appears to be one reason that despite cutbacks in welfare, AFDC and food stamp rolls have grown more over the past two years than would otherwise be expected. Recent studies in several states have found that a substantial proportion of new AFDC families are headed by individuals who have recently lost their jobs.

Finally, not only do government programs provide less cash assistance than in the past to cushion the blow of unemployment, the government also provides less aid in helping jobless workers obtain training for or placement into new jobs. From fiscal year 1981 to fiscal year 1992, federal appropriations for employment and training programs have fallen by more than half — 55 percent — after adjusting for inflation.

benefits program.[17] (Many other states had unemployment rates above seven percent for parts of the year and also did not qualify for the program.)

- In 1988, when the national unemployment rate averaged 5.5 percent, 10 states had average unemployment rates above seven percent. Four states had rates greater than *eight* percent. But only one of these states qualified for the extended benefits program. Louisiana, with the nation's highest unemployment rate — 10.9 percent — did *not* qualify.

A second set of reasons for the inadequacy of the unemployment insurance system in both good times and bad is that in some states, only a very small fraction of the unemployed qualify for any unemployment insurance. In 1989, there were 16 states in which fewer than one in every four unemployed workers received benefits. Even when labor markets are tighter and job searches are shorter, *some* unemployment insurance protection is needed to help workers until they find a job.

The combined effect of the inadequacies of state unemployment insurance programs and the weakness of the extended benefits program is substantial. As noted, during the recovery years from 1984 to 1989, the proportion of the unemployed receiving unemployment insurance averaged just 33 percent. In five of these six years, protection fell to the lowest levels experienced since the end of World War II. For those who do not receive help from the unemployment insurance system, the other parts of the safety net are often inadequate, as well. (See box on previous page.)

In short, while the current high levels of unemployment nationally are generating more interest in strengthening the unemployment insurance system, signs of economic growth should not diminish the desire to make permanent repairs in the system.

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[17] Seven states had unemployment rates between 6.0 percent and 6.9 percent in 1989. One of these states, Alaska, did qualify for extended benefits. No other state qualified.

IV. Unemployment Insurance Reforms

The passage of legislation to strengthen the unemployment insurance system in November 1991 and February 1992 may have created the impression that the problems with the unemployment insurance system have been "solved." But the temporary, limited changes enacted into law still leave the unemployment insurance system with a cracked foundation. To fill the cracks, comprehensive, permanent reforms are needed. Such reforms could be designed both to strengthen the provision of assistance to the long-term unemployed and to increase the proportion of unemployed workers receiving regular unemployment benefits.

Strengthening Assistance to the Long-term Unemployed

To strengthen unemployment insurance assistance for the long-term unemployed, two steps should be considered. The first is further extension of the emergency unemployment compensation program beyond mid-1992. The second is reform of the extended benefits program.

Extending the EUC Program

The EUC program is scheduled to expire July 4, 1992. Until then, workers who exhaust their state benefits are eligible for additional weeks of benefits. Depending on the state, benefits are available for a maximum of 26 or 33 additional weeks.

If the program does expire, most workers who exhaust their state benefits will be eligible for no additional benefits. The only exceptions will be that small fraction of workers who live in states that manage to qualify for the extended benefits

program. It is highly unlikely the labor market will improve enough by mid-year to justify such a dramatic reduction in assistance to the long-term unemployed. It is worth recalling that when the EUC program was established in November 1991, the unemployment rate stood at 6.9 percent. In February 1992, the rate was 7.3 percent, significantly above the November level.

Furthermore, past labor market patterns suggest that long-term unemployment is likely to remain high or to continue rising for a period after the economy begins to recover. As Labor Department officials noted in Congressional testimony in early 1991, during the recession of the early 1980s, long-term unemployment did not peak until six months *after* the recession ended.[18] It also bears noting that following both the recession of the early 1980s and that of the mid-1970s, the federal government maintained temporary supplemental benefit programs through the early years of the economic recovery.

Reforming the Extended Benefits Program

While further extension of the EUC program is likely to prove necessary, such a step would not address the permanent problems in how the unemployment insurance system deals with long-term unemployment. The permanent program of assistance to the long-term unemployed — the extended benefits program — remains inadequate.

As noted, the extended benefits program has performed poorly in recent years. During recovery periods, most states failing to share in economic prosperity have been unable to qualify for the program even if their unemployment rates are high. In addition, during periods when the economy has turned down and joblessness has increased across the nation, only a handful of states have qualified for extended benefits.

Federal policy changes have played a major role in making it more difficult for states to qualify for these benefits. One of the most important changes was made in 1981, when the federal threshold used to determine when a state qualifies for extended benefits was raised substantially.[19] As a result, unemployment must reach a much higher level than under the pre-1981 law before states can provide extended

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[18] John E. Bregger, Assistant Commissioner for Current Employment Analysis, Bureau of Labor Statistics, U.S. Department of Labor, Testimony before the Subcommittee on Human Resources of the Committee on Ways and Means, February 6, 1991.

[19] Technically, the factor (or "trigger") used to determine when a state qualifies for extended benefits is based on the number of unemployed workers receiving state unemployment insurance benefits. (See footnote six.)

At Least 12 States Failed to Qualify for Extended Benefits in 1991 Due to Changes Made in 1981

If the extended benefit rules in effect before enactment of the 1981 budget cuts had been in effect in 1991, a much larger number of states would have provided extended benefits to the long-term unemployed.

- Only eight states qualified for the extended benefits program at any time during 1991. Under the pre-1981 law, at least 12 additional states would have qualified. Long-term unemployed workers in California, Connecticut, Idaho, Kentucky, Mississippi, Montana, New Jersey, New York, Pennsylvania, Tennessee, Washington, and Wisconsin would have received extended benefits in 1991.

- Furthermore, under the pre-1981 law, the eight states that did pay extended benefits last year would have provided these benefits during more months of the year. These states would have qualified to pay extended benefits program earlier in the recession. In addition, the point at which the states became *in*eligible to continue paying extended benefits would have come later.

benefits. Wayne Vroman of the Urban Institute, a leading expert on unemployment insurance, has found that in some states, the unemployment rate must reach about 15 percent before these states can qualify to pay extended benefits.[20] (Florida, South Dakota, Texas, and Virginia are the states in this situation.)

This underscores the need to reform the extended benefits program. The current mechanism, or "trigger," for determining whether a state qualifies to pay extended benefits does not accurately reflect the depth of unemployment in states. Changes in the trigger mechanism are overdue.

Restoring the strength of the extended benefits program would, over time, be of substantial assistance to jobless workers in states with high unemployment. Nevertheless, this step might not provide relief in the immediate future. A change in federal law that enabled more states with high levels of unemployment to qualify for the extended benefits program would not take effect until states made corresponding

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[20] Wayne Vroman, Testimony before the Joint Economic Committee, January 4, 1991. Unemployed workers who do not receive regular unemployment benefits are not counted in the "trigger" used to determine a state's eligibility for the extended benefits program. As a result, in states with especially low levels of unemployment insurance protection, the unemployment rate has to reach extremely high levels before the state can qualify to provide extended benefits.

changes in their own laws. In some states, such changes might not be made for a number of months, if at all.

Thus, it would be sensible for Congress to enact legislation both extending the EUC program and making permanent reforms in the extended benefits program. This would allow states time to make corresponding changes in state laws governing the extended benefits program while the EUC program continued providing the additional relief needed during the current stretch of high unemployment.[21]

Worker Eligibility Criteria for Extended Benefits and EUC

Reforms should also be considered in another set of restrictive criteria enacted in 1980 and 1981 that have reduced the effectiveness of the extended benefits program. These criteria limited the eligibility of individual workers for extended benefits.

Before these changes were made, all individuals exhausting their state benefits were eligible for extended benefits in states qualifying for the extended benefits program. The 1980 and 1981 changes, however, established restrictive federal eligibility criteria that make many individuals who meet the eligibility requirements for state benefits — and who have exhausted these benefits — ineligible for extended benefits. Individuals who would be precluded from receiving extended benefits as a result of the 1980 and 1981 federal eligibility restrictions are also barred from receiving benefits under the emergency unemployment compensation program. The EUC program has adopted the federal extended benefits eligibility criteria.

The severity of some of the eligibility criteria adopted in 1980 and 1981 was described in recent Congressional testimony on behalf of the Interstate Conference of Employment Security Agencies, the organization of state agencies responsible for administering the unemployment insurance system.[22] The ICESA testimony noted problems with the extended benefits criteria in the areas of work search requirements, disqualification provisions, previous employment and earnings levels, and administrative complexity. Among the problems ICESA reported:

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[21] The federal government might also consider assuming a larger share of the financing of the extended benefits program, instead of the current 50-50 split between the state and federal governments. Such a permanent reform would provide fiscal relief to states with troubled economies and substantial long-term unemployment. If the federal government were to assume full financing of the extended benefits program, this alternative could take effect immediately without conforming state legislation.

[22] Thomas M. Hines, Acting Commissioner of the New York State Department of Labor, representing the Interstate Conference of Employment Security Agencies, Testimony before the Subcommittee on Human Resources of the House Committee on Ways and Means, January 23, 1992.

- The federal extended benefits criteria require the unemployed to conduct work searches often inconsistent with potential employment opportunities. The criteria are usually interpreted as two to four job contacts a week. ICESA stated: "In some rural areas where unemployment is high, where there are only a few major employers, and where it is known that those employers are not hiring, it is a meaningless exercise to require each EUC recipient to call on those few employers every single week in order to be eligible for benefits." This places an unnecessary burden on employers, as well. In contrast, state laws allow work search requirements to be reduced or waived when they clearly are fruitless.

- The federal criteria disqualify a worker from receiving extended benefits or EUC benefits for the remainder of the worker's spell of unemployment if the worker's job search efforts are interrupted for a week *for any reason*. This disqualification is applied regardless of whether there is a valid basis for interrupting the job search, such as if the unemployed individual becomes ill (or a child or elderly person for whom the jobless worker cares falls ill). Under state laws, workers are typically made ineligible for regular benefits only for the week that the job search was interrupted, not for the duration of the unemployment spell.

- The federal criteria require workers to have longer periods of employment and higher earnings to qualify for aid than is required under many state programs. The ICESA survey found that individuals who had exhausted their state benefits in 21 states would have been eligible for EUC benefits except for the more stringent employment and earnings requirements. As a share of potential recipients, this hurt Iowa's unemployed the most; 18 percent of Iowa's potential EUC recipients were denied benefits for this reason. In California, at the time of the survey, more than 23,000 workers who had exhausted their state benefits had been denied EUC aid because of the stricter standards. These restrictions are likely to affect low-income households most severely.

- The extended benefits criteria also require state employment services to reinterview personally many of the extended benefits or EUC claimants with an eye toward referring them to available jobs. ICESA noted that another personal interview is not always necessary or helpful and that reviewing the application may be all that is appropriate, particularly where jobs simply are not available. When combined with the inflexible work search requirements and the need to redetermine employment and

earnings eligibility, the federal extended benefits criteria create unnecessary administrative burdens and add to administrative costs.

ICESA concluded: "The stringent requirements that apply to EB/EUC are inconsistent with the fact that these programs are available only because economic times are bad and jobs are scarce....The fact is that these requirements are not designed to help people get back to work, but merely to restrict the number who qualify for extended or emergency benefits. These requirements create needless paper work for staff in local unemployment offices and bureaucratic hassles for unemployed workers with enough problems already."

In reforming the EUC and the extended benefits program, Congress should consider repealing the additional individual eligibility criteria imposed by the federal government and allowing state criteria to be applied throughout a worker's unemployment spell.

Increasing the Proportion of Unemployed Receiving Basic Benefits

In addition to changing policies that determine whether the long-term unemployed qualify for supplemental benefits, policies governing who receives state unemployment benefits deserve review. The wide variation among states in the share of the unemployed receiving unemployment benefits is partly related to the extensive differences in state eligibility standards. Because there are so many states in which only a small minority of the unemployed receive benefits, the magnitude of these differences is cause for concern.

Furthermore, changes in state laws in recent years to make eligibility criteria more restrictive have contributed to the decline in unemployment protection. A study conducted for the Labor Department by Mathematica Policy Research, Inc. identified a number of changes in state policy that account for part of the decline.[23] For example, some states acted in the 1980s to increase the number of weeks that employed people must work before they can qualify for unemployment insurance benefits if they lose their jobs.

A variety of reforms at both the federal and state levels could improve protection under state unemployment insurance programs. These reforms include

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[23] Walter Corson and Walter Nicholson, *An Examination of Declining UI Claims During the 1980s*, prepared by Mathematica Policy Research, Inc. for the U.S. Department of Labor. This study also identified a number of federal policy changes, in addition to the changes in the extended benefits program, that made the unemployment insurance program more restrictive in the 1980s.

stronger federal standards, improved program outreach, and individual state decisions to strengthen protection.

Stronger Federal Standards

Some federal UI standards — such as the exclusionary features of the worker eligibility criteria for extended benefits — are overly restrictive and make it too difficult for jobless workers to receive unemployment insurance benefits. In other areas, few if any federal standards exist, and some state policies are overly restrictive. In some of these areas, minimum federal standards would be appropriate. Such standards could still leave states with substantial discretion in designing their programs.[24]

Redefine "Base Period"

One potential reform would be to bring greater consistency to the time period (or "base period") used to determine whether applicants for unemployment benefits meet state requirements for prior earnings and employment. There could be federal standards regarding how the base period is defined. This is a significant issue because the amount an unemployed worker has earned in the base period helps determine the duration and level of benefits the worker may receive.

In the large majority of states, the base period is the first four of the last five completed calendar quarters before a worker files for unemployment benefits. As a result, a worker's "base period earnings" do not include earnings from employment in either the calendar quarter in which the worker files for unemployment benefits or the quarter before that. For workers laid off towards the end of a calendar quarter, nearly six months of work experience can be ignored. (See box on the next page.)

This approach restricts or reduces benefits for workers whose employment experience is concentrated in recent months.[25] As the share of the labor force employed in temporary or contingent employment continues to grow, more workers may fall into the excluded category as a result of this method of calculating prior work experience.

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[24] This section on federal standards draws heavily upon research by Mark Greenberg of the Center on Law and Social Policy.

[25] A worker whose employment experience is concentrated in recent months but is initially found ineligible to receive unemployment insurance benefits could wait and re-apply for benefits after a new quarter begins. Data are not available that would indicate how often this reapplication occurs, but it is likely that many workers do not reapply. Moreover, for those who do reapply and get benefits, the benefits are not available on the most timely basis, at the beginning of a period of unemployment.

Base Period Calculation Ignores Recent Work Experience

The current method most states use to determine eligibility for unemployment insurance ignores at least three full months of an applicant's most recent work experience and can miss nearly six months of work. This is shown in the following examples.

In most states, if a worker is laid off in March 1992, the worker's employment record in the current calendar quarter (the first three months of 1992) as well as the worker's employment record in the most recent completed quarter (the last three months of 1991) are not considered in determining eligibility for unemployment insurance. Instead, eligibility would be based on the worker's employment record from October 1990 to September 1991. Thus, this calculation would ignore nearly six months of the worker's recent work experience.

If a worker was laid off on January 1, 1992, the worker's employment record in the worker's most recent completed quarter — the last three months of 1991 — would not be considered in determining eligibility for unemployment insurance.

Six states — Massachusetts, Michigan, New York, Ohio, Vermont, and Washington — *do* include the most recent months of work history in determining eligibility. The procedures used in these states increase the chances that low-wage workers who have just lost their jobs, but who may not have been employed a year ago, will have sufficient earnings and employment in the base period to receive unemployment benefits. For example, in Washington and Ohio, if an applicant for benefits does not qualify based on earnings and employment in the first four of the last five completed quarters, the state determines if the applicant would be eligible based on the most recent four completed quarters. In another example, Vermont goes a step beyond the Washington/Ohio approach; if a worker does not qualify based on the most recent four completed quarters, Vermont then considers wages from the current quarter as well.

Federal standards could mandate that all states include the most recent completed calendar quarter of work history in determining eligibility but leave to states the decision as to how to include this work experience. This would represent a modest change; it would not establish federal standards on the amount or duration of earnings a worker must have during the base period to qualify for unemployment benefits.

Impose Modest Standards on Disqualification Practices

A second possible area for federal reform would involve placing modest limitations on state discretion in disqualifying unemployment insurance applicants. Some states appear to take an especially harsh stance in their judgments to deny benefits to certain applicants. For example, a study of the 11 largest states found that Texas and Florida are twice as likely as the rest of the nation to reject applicants on the basis that they quit their job voluntarily or were fired for misconduct.[26] This disparity appears primarily to reflect differences in administrative practices in these two states rather than differences in the nature of their unemployed populations.

In addition, while workers who leave their jobs voluntarily typically are, and generally should be, disqualified from receiving benefits, some states apply this disqualification even if the employee had to leave work for reasons largely beyond his or her control — and even if the employee had many years of prior work experience during which unemployment insurance taxes were paid based on the employee's wages. For example, if an employee is forced to leave a job because his or her child care arrangements have fallen through or a child becomes ill for an extended period of time, the employee is often ineligible for unemployment insurance for the full duration of the unemployment period. In another example, in about half of the states, a worker who leaves a job because of a serious illness is generally ineligible for unemployment benefits even if the worker recovers and starts looking for work but cannot find it.

While it is sensible to treat workers who lose their jobs *involuntarily* differently from most voluntary job leavers, it is not clear that voluntary job leavers who have a substantial employment record — and who had to leave their jobs for good reasons that may be largely outside their control — should be excluded from benefits altogether. Instead, these voluntary job leavers might be made eligible for benefits or required to wait a certain period of time before they become eligible for assistance. An especially strong case can be made for extending benefits to workers who leave their jobs because of family responsibilities — such as to care for a sick family member or to reassume child care responsibilities if other arrangements have fallen through.[27]

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[26] Data computed by the Center on Budget and Policy Priorities from Walter Corson and Walter Nicholson, *An Examination of Declining UI Claims During the 1980s*, prepared by Mathematica Policy Research, Inc. for the U.S. Department of Labor, 1988.

[27] A key reason that unemployment insurance benefits have traditionally been denied to people who voluntarily leave their jobs is the "experience rating" system, under which the larger the number of ex-employees receiving unemployment insurance benefits an employer has, the greater the unemployment insurance taxes the employer must pay. As a result, many employers object to the

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Strengthen Outreach Efforts

One reason the share of the unemployed receiving unemployment insurance benefits has fallen is that a growing number of unemployed people who may be eligible for unemployment insurance benefits have failed to apply for them. A study by economists Rebecca Blank and David Card found that a decline in the share of eligible unemployed workers who actually apply for and receive benefits was the most important factor behind the decline in state UI protection in the 1980s.[28] This study also found that the portion of eligible workers who apply for unemployment insurance varies widely among states.

A second study, conducted by Wayne Vroman of the Urban Institute, underscores the importance of this factor.[29] Vroman found that almost half of unemployed job losers did not apply for unemployment benefits in 1989-1990. A large share of these jobs losers — 45 percent — did not apply for benefits because they thought they were ineligible. The data Vroman used did not enable him to determine the extent to which this perception was accurate, but his findings — combined with Blank and Card's — raise the possibility that a significant fraction of unemployed job losers who fail to file for UI benefits could be eligible for unemployment insurance.

Both studies dovetail with other trends, as well. The 1980s saw a shift in employment from the manufacturing sector to the service sector and from union to non-union employers. Union workers from large manufacturing plants are more likely to apply for unemployment insurance benefits, presumably because they are more likely to have information about the UI system. Unions generally undertake efforts to notify their members of potential eligibility.

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[27](...continued)

provision of benefits to individuals who have left their job for any reason that is not the employer's fault.

A possible response to this objection would be *not* to charge the employer's account when the employer is not at fault for a voluntary quit, but still to provide unemployment insurance benefits when an individual had a substantial job record and had to leave employment for reasons largely outside his or her control. The benefits for these individuals could be funded out of general unemployment insurance taxes collected from all employers. This approach would separate the issue of who pays for the benefits from whether such an individual ought to receive benefits.

[28] Rebecca M. Blank and David E. Card, "Recent Trends in Insured and Uninsured Unemployment: Is There an Explanation?" National Bureau of Economic Research, Working Paper No. 2871, 1989.

[29] Wayne Vroman, "The Decline in Unemployment Insurance Claims Activity in the 1980s," December 1990.

Other Potential Federal Reforms

Other federal reforms in the unemployment insurance system may also be considered over the coming year. A full discussion of these reforms lies beyond the scope of this report. Additional reforms that may be considered include: changing the administrative financing system, reforming the federal loan program to states experiencing trust fund problems, reducing or eliminating the taxation of unemployment insurance benefits, establishing federal standards for state benefit levels and earnings requirements, and strengthening the linkage between unemployment insurance and reemployment efforts.*

Some of these reforms are clearly laudable. For example, the current administrative funding process fails to respond adequately or expeditiously to unexpected increases in unemployment. As a result, unemployment offices often find themselves shorthanded when unemployment rises sharply. When that occurs, unemployed workers who file unemployment insurance claims can encounter long lines, extensive waits before receiving any benefits, and other administrative snafus.

* One idea to integrate unemployment insurance with reemployment has been put forward by Sar A. Levitan and Frank Gallo. They propose to couple the receipt of assistance beyond the initial 26 weeks of state UI benefits with public service employment. Sar A. Levitan and Frank Gallo, *Spending to Save: Expanding Employment Opportunities*, Center for Social Policy Studies, February 1992.

These findings suggest that various forms of outreach could increase the chances that individuals eligible for unemployment insurance benefits would apply for assistance. The most direct and timely approach would be to inform newly unemployed individuals of their potential eligibility.

For example, employers could be required to give written notice to all employees who involuntarily leave their firms of the potential availability of unemployment insurance. The notice could include where to apply for benefits as well as basic eligibility guidelines. The Employment Service should be responsible for designing these forms and distributing them to employers. Such written notification would ensure that newly unemployed workers are informed of their potential eligibility for unemployment insurance at the most appropriate time — when they lose their job.

Changes in State Policies

State decisions to modify their own policies also could help to strengthen the level of protection provided under the unemployment insurance system. States could

examine their eligibility rules and administrative procedures to see if they have grown too strict and if selected changes might be appropriate.

For example, states, themselves, could redefine the "base periods" used to determine both a worker's eligibility for unemployment benefits and the amount and duration of the benefits. Base periods could be modified to include earnings and employment in recent months. Such state action would be especially appropriate if federal standards are not established in this area.

In addition, states could reexamine their formulas for determining benefit duration. Eight states provide 26 weeks of benefits to all eligible workers; in other states, benefit duration is based on a percentage of the worker's earnings during the base period or the number of weeks worked during that period. These formulas can be quite restrictive. In 24 states, unemployment benefits terminate by the time they equal one-third of the worker's earnings in the base year. Such provisions primarily limit benefits for low-wage workers.

States could also review their administrative practices to make sure their unemployment insurance program is administered fairly and that jobless workers who meet previous employment and earnings requirements are not discouraged from applying for benefits or disqualified unnecessarily. As noted, among the 11 largest states, Florida and Texas have been found to be more than twice as likely as other states to disqualify an applicant for voluntarily quitting a job or a misconduct discharge. These higher disqualification rates appear to reflect differences in state administration of the unemployment program in Florida and Texas. Unemployment insurance offices in those states may be more predisposed to making a judgment that an applicant or beneficiary is undeserving of benefits. High denial rates can also deter eligible jobless workers from filing claims for unemployment benefits.

States should also review their policies to see if they are denying benefits to workers who have quit their jobs for good reasons, particularly if these reasons relate to family responsibilities such as caring for a sick family member.

Finally, states should step up outreach efforts. For example, since rising AFDC and food stamp caseloads include a substantial proportion of applicants with previous work experience, state AFDC and food stamp workers could provide information and written materials to such applicants about unemployment insurance. The state UI agency could supply these materials to the welfare offices.

States outreach efforts should focus on both state unemployment insurance benefits and the emergency unemployment compensation program. Of those unemployed workers who have exhausted their state benefits, the proportion

receiving EUC benefits appear to vary widely across the country.[30] Outreach efforts may be partly responsible for these differences. Since the EUC program is funded entirely by the federal government, outreach efforts focused on the EUC program can enable states to increase aid to unemployed residents without increasing state costs.

Financing Unemployment Insurance Reforms

The best way to finance unemployment insurance reforms is within the unemployment insurance system itself. The federal UI taxation structure needs reform. In particular, Congress could consider raising the wage base on which the federal unemployment insurance tax is levied.

Currently, employers pay a federal unemployment insurance tax equal to 0.8 percent of the first $7,000 of each worker's wages. This federal "taxable wage base" of $7,000 has been raised only three times since it was initially set at $3,000 in 1935. It now covers just 32 percent of the total wages paid by such employers.

In comparison, Social Security taxes are paid on the first $55,500 in earnings. The Social Security tax base is eight times higher than the unemployment insurance tax base. Yet when the unemployment insurance and Social Security programs were created, their taxable wage bases were set at the same level.

The current unemployment insurance tax structure, with its low taxable wage base, creates serious inequities. An employer pays precisely the same amount of federal unemployment insurance tax for an employee earning $7,000 as for an employee earning $50,000 or $100,000. Yet the worker paid at the higher wage level gets larger unemployment benefits if he or she loses a job. This tax and benefit structure effectively discriminates against low-wage workers with earnings at or near the taxable wage base.[31]

If the wage base were raised sufficiently, it could be coupled with a substantial reduction in the unemployment insurance tax *rate* that employers pay — and still produce an increase in revenues sufficient to finance the costs of extending unemployment protection to a larger share of jobless workers. Such an approach was

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[30] This observation is based on a state-by-state comparison of the ratio of the number of EUC claimants to the number of workers who recently exhausted their regular unemployment insurance benefits.

[31] State unemployment insurance benefits, as well as the state share of extended benefits, are financed through state taxes. Currently, the federal taxable wage base sets a floor below which the state wage base may not drop. In the typical state, the taxable wage base equaled $8,000 in 1990, a level just slightly above the federal base.

Summary of Potential Unemployment Insurance Reforms

I. Strengthen assistance to the long-term unemployed.

A. Extend the emergency unemployment compensation program beyond July.

B. Reform the extended benefits trigger so that states with high unemployment rates qualify.

C. Eliminate special worker eligibility criteria for extended benefits/EUC that exclude those who qualified for state benefits.

II. Increase the proportion of the unemployed who receive state benefits.

A. Establish some minimum federal eligibility standards.
1. Require that the base period include the most recent completed calendar quarter.
2. Modestly limit disqualifications of people who leave their jobs for "good cause," such as family responsibilities or illness.

B. Strengthen outreach. Consider establishing federal requirement that employers notify laid-off workers of potential UI eligibility.

C. Modify state policies.
1. States could redefine their base period to include most recent work experience.
2. States could reexamine formulas for determining benefit duration so that benefits for certain workers are not terminated too quickly.
3. States could review administrative practices to make sure they are not unduly denying benefits to applicants.
4. States could strengthen outreach.

III. Other potential federal reforms not discussed here.

A. Reform administrative financing.

B. Modify the rules governing federal loans to state trust funds.

C. Reduce or eliminate taxation of unemployment benefits.

D. Establish federal standards for state benefit levels and earnings requirements.

E. Strengthen linkages between unemployment insurance and reemployment efforts.

IV. Financing unemployment insurance reforms.

A. The UI taxable wage base could be raised to the social security wage base, while reducing the UI tax rate.

B. If another financing mechanism is used, it should be progressive.

included in unemployment insurance reform legislation that passed the Human Resources Subcommittee of the House Ways and Means Committee in 1991, but it was dropped, along with some permanent reform measures, later in the legislative process.

If the federal government considers alternative financing mechanisms that would pay for UI reforms with non-UI revenue mechanisms, these measures should reflect the principle of tax progressivity. In other words, revenues should be raised in a manner that consumes a larger share of the incomes of the wealthy than of the middle class or the poor. Income gains over the past 10 to 15 years, as well as changes in federal tax policy during this period, have primarily benefitted the wealthiest segment of the population.[32]

Conclusion

The glaring inadequacies of the unemployment insurance system eventually captured the attention of both Congress and the President in 1991. In February 1992, legislation that strengthened the temporary EUC program was passed quickly with virtually unanimous bipartisan support. The increased sensitivity of policymakers to the problems in the UI system make this a propitious time to consider permanent reforms.

Changes in government policy in the 1980s have played a central role in weakening the unemployment insurance system and increasing the hardships borne by jobless workers who either do not receive any unemployment benefits or whose benefits expire before they can find work. Given the likely persistence of high unemployment for an extended period of time, government policies should now reverse course. Comprehensive, permanent reforms in the unemployment insurance system should be adopted.

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[32] Data from the Congressional Budget Office depict the unevenness of recent income trends. According to the CBO data, from 1977 to 1989, the after-tax incomes of the poorest fifth of the population *fell* by nine percent, after adjusting for inflation. The middle fifth of the population had a very modest increase in after-tax incomes of four percent. In sharp contrast, the incomes of the wealthiest fifth of the population jumped 32 percent and the incomes of the top one percent more than doubled (rising by 102 percent).

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